

The Evolution of Specialty Pharmacy

Scott Kober, Contributing Editor

In 1992, Donald Vidic, RPh, MBA, began his career in specialty pharmacy as one of the first handful of employees for Stadtlanders Pharmacy, a grassroots company that had recently moved to the fifth floor of a seven-story office building near Pittsburgh. In reality, he was coming in on the ground floor of a burgeoning industry.

At the time of Vidic's arrival, the menu of conditions seen among those patients that Stadtlanders served was small — a few that were ancillary to primary therapy to manage side effects, as well as HIV, transplant, and a new growth area, multiple sclerosis (MS). That was pretty much it.

Unlike retail stores, the Stadtlanders model was focused more on chronic conditions with higher-than-average prescription prices, and consequently, the company achieved healthier revenues than many retail drugstores with high volumes in lower margin drugs. Several years later, the company expanded into a few more areas, including growth hormones. In time, revenues surpassed \$100 million — and kept growing. By the time it was bought by CVS in 2000, Stadtlanders was one of the largest employers in Allegheny County.

That sort of growth really is an allegory of specialty pharmacy itself. A decade ago, health plans and employer groups were still pretty much able to ignore that little flag waving in their periphery because it had not yet significantly affected their overall spend. Each year since then, however, specialty pharmacy has become harder and harder to ignore. And today, it is a semaphore that cannot be avoided.

"Payers and employers are becoming acutely aware of what the specialty spend does to their overall trend," notes Vidic, now vice president of operations for McKesson Specialty Pharmacy, headquartered in Pittsburgh. "The adage of '1 percent of the population, 30 percent of the drug costs' is something that will affect even a 200-employee company. It might just be 2 people out of 200 who drive those costs, but depending on the therapy, those costs could be significant to their bottom line."

"People are going to live longer with what were con-

sidered to be — and may still be today — 'acute' conditions," he continues. "The cost- and return-to-work results that we see with our employer group and insurance plan customers of all sizes are dramatically improved after we implement specialty pharmacy programs among their memberships."

TREND IS CLEAR

While nonspecialty drugs plod along with year-to-year spending increases of between 2 and 6 percent, specialty drug costs are zooming forward more than 10 percent annually. An Express Scripts report projects the share of drug spending devoted to specialty pharmaceuticals to increase from approximately 19 percent in 2006 to 26 percent by 2010. As a result of higher utilization owing to expanded indications and to a blossoming pipeline, specialty pharmacy expenditures are expected to reach \$100 billion annually by 2010. If current trends continue, by 2030, specialty pharmacy costs will exceed \$1 trillion a year and account for as much as 44 percent of a health plan's total drug expenditures.

Historically, specialty pharmaceuticals have been loosely defined as any drug that requires "high-touch" service in the forms of distribution, administration, or patient management — all factors that drive up costs for the purchaser or consumer. Over-the-counter aspirin, for example, does not fit the definition of a specialty pharmaceutical, but interferon beta-1a (Avonex) — a \$17,000-a-year product used to treat MS that requires a refrigerated chain of distribution — clearly does.

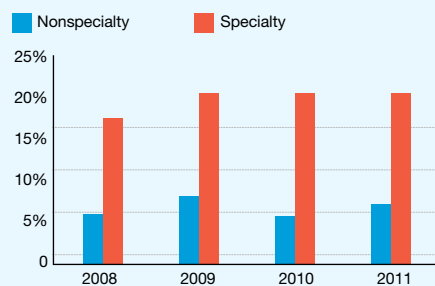
Whereas in the mid 1990s, when fewer than 30 specialty drugs were on the market, there are more than 200 specialty pharmaceuticals available today. Some treat relatively common conditions, such as rheumatoid arthritis, hepatitis C, and MS; others treat uncommon conditions, such as pulmonary arterial hypertension and severe combined immunodeficiency. A decade from now, more than 400 specialty products are expected to be handled by specialty pharmacies. There's that semaphore again.

"We're seeing more interest and questions about specialty pharmacy from employers and their consultants,"

ESPECIAL-TY STRONG TREND

Trend=utilization increases + price inflation + market entry of new medications

PROJECTED TREND, 2008 TO 2011



Source: Express Scripts 2007 Drug Trend Report

says Thom Stambaugh, RPh, chief pharmacy officer for CIGNA Pharmacy Management, in Bloomfield, Conn. "We've been preparing for several years for specialty costs to drive pharmacy trend, and 2007 was the first year that actually began to occur." CIGNA Pharmacy Management uses an integrated medical, pharmacy, and behavioral approach not only to improve the health of members who require specialty medications, but also to control healthcare costs for both members and plan sponsors. "We deliver a 'return on health' through clinical integration," says Stambaugh.

THE EARLY YEARS

In its infancy, specialty pharmacy was truly a niche industry, serving a limited number of patients with a small number of high-cost, low-volume, and high-maintenance conditions, such as hemophilia and Gaucher disease. Companies like Stadtlanders emerged, in some cases, due to timing and good fortune.

As expensive lifesaving therapies became available, paperwork and treatment costs posed an issue to patients who retrieved these prescriptions from retail stores. Locations did not always have these costly drugs in stock, and most requested that patients pay for their drugs up front and complete insurance paperwork — in most cases, for Medicare — to secure reimbursement. Even in cases, for example, where patients needed immediate access to therapies to prevent organ rejection, most did not have the money for such payments, nor did they have the expertise they needed to complete the forms.

Specialty pharmacies like Stadtlanders responded by filling out the paperwork for patients and coordinating benefits to eliminate the potentially enormous out-of-pocket costs. The pharmacies also coordinated referrals from hospital discharge planners and delivered the medication to the patients' homes to allow therapy to begin immediately upon hospital discharge. These pharmacies grew through word of mouth; nurses and physicians heard from their patients about the "special services" provided by these pharmacies and started to refer patients in similar predicaments.

Several cities in the United States had their "Stadtlanders" — companies that saw an opportunity in an emerging market and rode the wave of growth. Although niche independents still exist in certain markets, the majority of smaller specialty pharmacies were, over the years, gobbled up by a variety of national competitors as the in-

dustry's profitability grew exponentially. Today's marketplace is dominated primarily by traditional pharmacy benefit managers that have merged with previously existing specialty pharmacies, or those that are retail-based or insurer-owned. These organizations typically have the muscle to negotiate better prices and frequently offer a complete menu of specialty pharmaceuticals and related services to serve as an attractive "one-stop shop" for health plans and employers.

EVOLVING MARKETPLACE

Despite the U.S. Food and Drug Administration's apparent increased caution in its approval of new biotech drugs, no one foresees the specialty pharmacy marketplace

to slow down in the near future. The complexity of specialty pharmacy — and the dollars attached to it — means that payers at every level will need to examine their overall specialty pharmacy spending trends and make smart decisions about key sticking points, including the following:

The "value" of value-added services. Since its infancy, specialty pharmacy providers have attached high-touch services to their overall price tags. The rationale goes that patients who receive specialty pharmaceuticals will need high levels of ancillary and follow-up care to ensure that the drug spend is not wasted on them. But as more and more of these services are piled on, how do you figure

out which are worth the investment and which are merely a waste of money?

Does size matter? What does a benefits manager at a 5,000-employee company need to know about specialty pharmacy and how should he or she go about getting the necessary information? How about at a 500-employee company? A 50-employee company?

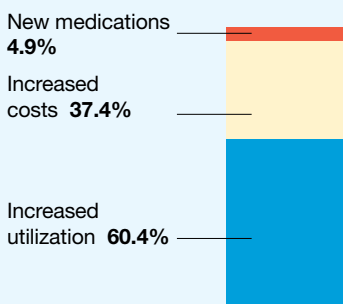
Squeezing out the little guy. Small independent specialty pharmacies drove the initial growth of the industry, but the Stadtlanders of the world are largely a dying species. Is there a niche still left for creative entrepreneurs in specialty pharmacy? Does the little guy still have any value to payers?

In future issues, we will take an in-depth look at each of these topics to help readers pick through the complex web of specialty pharmacy. Current trends mandate that it is no longer an area anyone can ignore.

Scott Kober is a freelance writer in Philadelphia specializing in medical issues.

5 PARTS THIS, 37 PARTS THAT...

In 2007, the 14 percent increase in specialty drug trend was attributed to three factors:



Source: Express Scripts 2007 Drug Trend Report